

**Commonwealth of Kentucky  
Department of Revenue**

**Handbook for Electronic Filers of  
Individual Income Tax Returns**

*Tax Year 2006*



Kentucky Dept of Revenue  
Electronic Filing



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# What's New for Tax Year 2006

**STANDARD DEDUCTION**—For 2006, the standard deduction is increased to \$1,970.

**FAMILY SIZE TAX CREDIT**—This credit provides benefit to individuals and families at incomes up to 133 percent of the threshold amount. The 2006 threshold amount is \$9,800 for a family size of one, \$13,200 for a family of two, \$16,600 for a family of three and \$20,000 for a family of four or more.

**TOBACCO QUOTA BUYOUT**—Imputed interest included in tobacco buyout is exempt from Kentucky income tax.

**INCOME TAX EXCLUSION FOR MILITARY PERSONNEL KILLED IN THE LINE OF DUTY**—HB 380 amended KRS.141.010 to exempt all income earned by soldiers killed in the line of duty from Kentucky tax for the years during which the death occurred and the year prior to the year during which the death occurred.

The changes are applicable for tax years beginning after December 31, 2001. The income exclusion applies to all income from all sources of the decedent, not just military income. The exclusion includes all federal and state death benefits payable to the estate or any beneficiaries.

Amended returns may be filed for the year the soldier was killed in the line of duty and the year prior to the year of death. The amended returns must be filed within the statute of limitations period; four years from the due date, the extended due date or the date the tax was paid, whichever is later.

If a combined return was filed, the exclusion would apply to the income reported in Column A or Column B of the Kentucky return attributable to the military member. If a joint return was filed, the income must be separated accordingly. Refunds will be issued in the names on the original return. Beneficiaries or estates that received death benefits that were included in a Kentucky return may file an amended return to request a refund of taxes paid on the benefit.

The Department of Revenue will use the Veterans Administration definition for “in the line of duty,” which is in active military service, whether on active duty or authorized leave, unless the death was the result of the person’s own willful misconduct.

**ENVIRONMENTAL STEWARDSHIP TAX CREDIT**—For tax years beginning on or after January 1, 2006, an approved company may be permitted a credit against the Kentucky income tax imposed by KRS 141.020 or KRS 141.040 on the income of the approved company generated by or arising out of a project as determined under KRS 154.48-020. An “environmental stewardship product” means any new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment or provides for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. A company must have eligible cost of at least \$5 million and within six months after the activation date, the approved company compensates a minimum of 90 percent of its full-time employees whose jobs were created or retained with base salary wages equal to either: (1) 75 percent of the average hourly wage for the commonwealth; or (2) 75 percent of the average hourly wage for the county in which the project is to be undertaken. The maximum amount of negotiated inducement that can be claimed by a company for any single tax year may be up to 25 percent of the authorized inducement. The agreement shall expire on the earlier of the date the approved company has received inducements equal to the approved costs of its project, or 10 years from the activation date. For more information, contact the Cabinet for Economic Development, Old Capitol Annex, 300 West Broadway, Frankfort, Kentucky 40601.

**Caution:** An approved company under the Environmental Stewardship Act shall not be entitled to the recycling credit provided under the provisions of KRS 141.390 for equipment used in the production of an environmental stewardship project.

**CLEAN COAL INCENTIVE TAX CREDIT**—Effective for tax years ending on or after December 31, 2006, a nonrefundable, nontransferable credit against taxes imposed by KRS 136.120, KRS 141.020 or KRS 141.040 shall be allowed for a clean coal facility. As provided by KRS 141.428, a clean coal facility means an electric generation facility beginning commercial operation on or after January 1, 2005, at a cost greater than \$150 million that is located in the Commonwealth of Kentucky and is certified by the Environmental and Public Protection Cabinet as reducing emissions of pollutants released during generation of electricity through the use of clean coal equipment and technologies. The amount of the credit shall be \$2 per ton of eligible coal purchased that is used to generate electric power at a certified clean coal facility, except that no credit shall be allowed if the eligible coal has been used to generate a credit under KRS 141.0405 for the taxpayer, parent or a subsidiary.

**DEDUCTION FOR CLEAN-FUEL VEHICLES**—Beginning January 1, 2006, the IRC Section 179A deduction, which allowed taxpayers who owned qualified clean-fuel vehicles or refueling property a deduction from federal adjusted gross income, was eliminated and replaced with a new credit for alternative motor vehicles enacted by the Energy Policy Act of 2005. Since Kentucky's income tax law is based on Internal Revenue Code in effect December 31, 2004, the clean-fuel deduction is still available for Kentucky in 2006 and the deduction must be taken as a subtraction from federal adjusted gross income on Schedule M.

A qualified clean-fuel vehicle is any motor vehicle that is propelled by a clean-burning fuel such as natural gas, liquefied natural gas, hydrogen, electricity, or any other fuel at least 85 percent of which is methanol, ethanol, any other alcohol or ether. The deduction is computed as 25 percent of the cost of a qualified clean-fuel vehicle. The maximum amount of the deduction is now \$12,500 for a truck or van with a gross vehicle weight over 26,000 pounds or a bus with seating capacities of at least 20 adults; \$1,250 in the case of a truck or van with a gross vehicle weight between 10,000 and 26,000 pounds; and \$500 in the case of any other motor vehicle. If a vehicle may be propelled by both a clean-burning fuel and any other fuel, only the incremental cost of permitting the use of the clean-burning fuel shall be taken into account.

## Reminders from Tax Year 2005

- 1) Form 8453-K does **NOT** need to be mailed to the Kentucky Department of Revenue (KDOR). Please keep a signed copy in your files for a period of three years. KDOR has the right to ask for a signed copy at a later date.
- 2) Kentucky will again accept state-only returns for the tax year 2006. We will not accept state-only returns for part-year residents or nonresidents.
- 3) Taxpayers can pay their 2006 Kentucky individual income tax by MasterCard or VISA credit card through April 16, 2007. Access the Kentucky Department of Revenue's home page (<http://revenue.ky.gov>) to make credit card payments over the Internet. Click on the KY E-Tax logo, scroll down the page and click on *E-Payments*. If a taxpayer does not have access to the Internet, you may call KDOR at (502) 564-4581. To make a credit card payment, the following information is needed: credit card type and number, expiration date and the cardholder's address as it appears on the credit card billing statement.
- 4) Direct Debit is another payment option for an electronically filed return. **The payment must be exactly the amount due as indicated on the return.** A date up to April 16, 2007 can be elected for the payment to be debited from the specified account. After April 16, the payment will be debited when the return has completed processing. If you elect to have your payment withdrawn on April 16, 2007, please allow 2 weeks for processing of that payment. It WILL be considered a timely payment. The direct debit payment is only being offered on returns filed electronically.
- 5) The 100 percent deduction for health insurance premiums paid does **not** include premiums paid using pretax dollars. Some software packages make no mention of this and the taxpayers are entering all premiums, including those paid by employers using pretax dollars. Please make sure the taxpayer is aware of which premiums are deductible.
- 6) Kentucky accepts all federal extensions. If a federal extension has been filed, please set the indicator to 'yes' so that Kentucky will not send a tax due bill with penalties and interest added. The 'trigger' for this action is in the federal forms. Federal Form 4868 is now an automatic extension for 6 months. Kentucky adopted this change.
- 7) Retirement income exclusion for the 2006 tax year and for future years will remain at the current level of \$41,110.

# Section 1

## Kentucky Electronic Filing Calendar

For Taxable Period beginning January 1, 2006, and ending December 31, 2006

Begin Federal/State Software Testing .....	November 9, 2006
State testing for software developers is to begin after the developers have been accepted by the IRS.	
Begin Transmitting Returns to IRS/KDOR.....	January 12, 2007
Last Day to Transmit Kentucky Returns Electronically.....	October 15, 2007
All fed/state rejected returns must be re-transmitted and accepted by .....	October 20, 2007

**NOTE: These dates are subject to change at any time.**



## Section 2

### Introduction

The Kentucky Department of Revenue (KDOR) joined with the Internal Revenue Service (IRS) in 1994 to offer electronic filing of federal and state individual income tax returns. The Federal/State Electronic Filing Program allows taxpayers to file both their federal and state returns electronically through their tax preparer. This program is an effort to provide “one-stop shopping” for all tax preparation and filing. Taxpayers, tax practitioners and KDOR benefit from electronic filing.

The program was offered to all Kentucky taxpayers during the 2006 filing season, with nearly 908,000 returns being received to date. This represents an increase of 5 percent from 2005.

IRS Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, regulations and requirements governing tax preparers, transmitters, and originators of returns put forth by the IRS are used by KDOR.

Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, is to be used in conjunction with IRS Publication 1345. The Kentucky Handbook sets forth those items that are unique to KDOR. Because most functions in the Federal/State Electronic Filing Program are the same, this handbook highlights the special features for Kentucky. The information contained herein explains the program, including changes from last year.

If there are any questions, comments or suggestions on this handbook, please contact the:

#### Kentucky Department of Revenue

Primary Contact  
Judy Ritchie, Electronic Filing Coordinator  
1266 Louisville Rd  
P.O. Box 1231, Station 29  
Frankfort, Kentucky 40602-1231  
(502) 564-5370  
Fax (502) 564-9897  
E-Mail address: [Judy.Ritchie@ky.gov](mailto:Judy.Ritchie@ky.gov)

Secondary Contact  
Teresa Gardner, Manager  
(502) 564-9329  
E-Mail address: [Teresa.Gardner@ky.gov](mailto:Teresa.Gardner@ky.gov)

#### Technical Support and Software Questions

Primary Contact  
Aaron Hicks  
(502) 564-4581 Ext. 4772  
E-Mail address: [Aaron.Hicks@ky.gov](mailto:Aaron.Hicks@ky.gov)

Secondary Contact  
Peggy Barber  
(502) 564-4581 Ext. 4672  
E-Mail address: [Peggy.Barber@ky.gov](mailto:Peggy.Barber@ky.gov)

## **Section 3**

### **Publications**

The following publications describe the process of electronic filing and federal/state electronic filing:

#### **Internal Revenue Service Publications**

Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns

Publication 1346, Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns

Publication 1436, Test Package for Electronic Filing of Individual Income Tax Returns

Publication 1545, The Electronic Filing Logo Guidelines for Effective Use

#### **Kentucky Department of Revenue Publications**

Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns

Publication KY-1346, Kentucky Software Developer's Guide

Publication KY-1436, Kentucky Test Package

Forms and publications are also available on the internet at <http://revenue.ky.gov>

## Section 4

### Federal/State Electronic Filing

#### General Information

Tax preparers and transmitters accepted in the IRS Electronic Filing Program will be able to participate in the Federal/State Electronic Filing Program and be able to file both the federal return and the state return in one transmission to the IRS Philadelphia Service Center. **The software used to transmit the data must be certified by both the IRS and Kentucky Department of Revenue (KDOR).** KDOR will provide a certification letter to all approved software developers. This certification should accompany the final version of the software. The IRS will acknowledge acceptance of the federal data and receipt of the state data packet. The IRS acts as a conduit through which KDOR will retrieve the state data packet for processing.

KDOR will acknowledge receipt of the state data and then process the taxpayer's return. The transmitter should be able to retrieve the Kentucky acknowledgment within three days from the time acknowledgment is received from the IRS.

#### Who May Participate

Federal/state electronic filing for full-year resident Kentucky returns is available to all interested parties who have been accepted in the federal electronic filing program. There is no additional application for Kentucky. In 2007, KDOR will accept returns through October 15. Please contact software companies directly if you have questions about availability of state software packages.

#### State Only Filing

Kentucky is accepting state only returns for the 2006 tax year. *We will not accept state-only returns for part-year residents and nonresidents.* State-only filing is a method to file a state return through the current Fed/State system. The type returns that will be eligible for state only filing are: 1) Previously rejected state e-filed returns and, 2) State returns input separately from a previously filed federal return. In all transmissions, the federal data must be attached.

**Please consult your software vendor to determine the availability of state only filing.**

## Section 5

### Acceptance Process

***Getting  
started***

In order to participate in the Federal/State Electronic Filing Program, participants must apply to the IRS by submitting Form 8633, Application to Participate in the Electronic Filing Program. This form is available from the IRS. **An additional application form is not necessary for the Kentucky Department of Revenue.**

Federal Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, specifies the application process and requirements for federal participation. The IRS definition of the various categories of electronic filers (electronic return originator, transmitter or software developer) will apply for Kentucky electronic filing purposes under the federal/state program.

KDOR will recognize the federal acceptance process for the 2006 tax period. Acceptance into the federal program is automatic acceptance into the Kentucky electronic filing program. No separate application form is necessary for the Kentucky program. However, KDOR will conduct a suitability check on the applicants into the Federal/State Electronic Filing Program and will notify any applicant who is **ineligible** to participate.

KDOR will use the same EFIN and ETIN assigned by the IRS for the Federal/State Electronic Filing Program.

Software developers are required to test with KDOR prior to distribution of software. Use of untested software could cause Kentucky returns to be rejected.

In addition to software developers, transmitters will be allowed to test with KDOR to ensure they have the ability to retrieve the Kentucky acknowledgment records. Tax preparers and EROs also have the option to test with KDOR but this is not required.

Test material and instructions are posted on the internet at <http://revenue.ky.gov> or can be obtained by contacting the Kentucky Department of Revenue.

Primary Contact  
Aaron Hicks  
(502) 564-4581 Ext, 4772  
[Aaron.Hicks@ky.gov](mailto:Aaron.Hicks@ky.gov)

Secondary Contact  
Peggy Barber  
(502) 564-4581 Ext.4672  
[Peggy.Barber@ky.gov](mailto:Peggy.Barber@ky.gov)

## Section 6

### Filing an Electronic Return

#### Composition of an Electronic Return

An electronic return consists of data transmitted electronically to KDOR, using the IRS as a conduit.

#### Electronic Portion of Return

The following forms and schedules can be transmitted electronically and are considered the electronic portion of the return:

1. All federal individual income tax forms and schedules allowed by IRS Publication 1345, Section 18.
2. Form 740, Kentucky Individual Income Tax Return.\*
3. Schedule A, Kentucky Itemized Deductions.
4. Schedule M, Kentucky Federal Adjusted Gross Income Modifications.
5. Schedule P, Kentucky Pension Income Exclusion.
6. Form 2210-K, Underpayment of Estimated Tax by Individuals.
7. Schedule J, Kentucky Farm Income Averaging.
8. Form 8582K, Kentucky Passive Activity Loss Limitations.
9. Form 8863K, Kentucky Education Tuition Tax Credit.
10. Form 4972K – Kentucky Tax on Lump-Sum Distributions
11. Tax Paid to Other State (Worksheet A)
12. Nonrefundable Kentucky Corporation Tax Credit (Worksheet B)

\*740-EZ is filed through the Form 740 format.

**All software packages should support all forms available for Kentucky electronic filing.** Check your software package for forms availability before submitting returns. Any electronic tax returns submitted without all required forms will be rejected. (See Appendix A for rejection codes.)

## Non-electronic Portion of Return

The non-electronic portion of the return consists of the following:

1. Form 8453-K, Kentucky Individual Income Tax Declaration for Electronic Filing.
2. State copies of Form W-2, W-2G or 1099-R which would normally be attached to a paper return.
3. Supporting schedules and documents requiring signatures. (Neither the federal nor state return is required to be attached to Form 8453-K since they are sent electronically. However, if someone other than the transmitter prepared the return, the preparer should sign Form 8453-K or the transmitter should attach the paper return with the preparer's original signature to the Form 8453-K).
4. Any other informational documents that the taxpayer voluntarily includes with the return as supporting material.

## Guidelines for Form 8453-K

Electronic Return Originators (EROs) are not required to mail Form 8453-K to KDOR. The KDOR has established the following guidelines for Form 8453-K:

- Fed/State E-filed returns with a federal PIN – For returns filed via this method, an 8453-K is **not** required. The use of the federal PIN meets signature requirements for the Kentucky return.
- Fed/State E-filed returns without a federal PIN – For returns filed via this method, an 8453-K is required. **This document does not need to be mailed to KDOR.** EROs must retain them for a period of three years. State copies of the wage statements, supporting schedules, documents requiring signatures and other informational documents should be attached to the 8453-K and be retained by the ERO for a period of three years.
- Online Filing – For returns filed via this method, an 8453-K is required. This document does **not** need to be mailed to KDOR. Taxpayers must retain the form for a period of three years.

## **Exclusions from Electronic Filing**

In addition to the returns excluded from federal electronic filing listed in Publication 1345 for tax year 2006 (2007 filing season), the following are specific Kentucky forms which are also excluded:

1. Form 740-X, Amended Kentucky Individual Income Tax Return
2. Form 740-XP, Prior Year Amended Kentucky Individual Income Tax Return
3. Prior Year Returns
4. Form 740-NP, Nonresident or Part-Year Resident Income Tax Return
5. Form 740-NP-R, Nonresident--Reciprocal State
6. Any partnership, corporate or fiduciary tax return
7. Fiscal Year Returns
8. Injured Spouse Declaration

## Section 7

### Transmitting the Kentucky Electronic Return

Kentucky returns included in the Federal/State Electronic Filing Program will be transmitted to the IRS Philadelphia Service Center, along with the federal return. Transmissions shall be accomplished according to IRS procedures.

Kentucky will again accept state-only returns for the 2006 tax year. We will not accept state-only returns for part-year residents and nonresidents. Please consult your software vendor to determine the availability of state only filing.

Once the IRS has provided an acknowledgment to the ERO, the state data segment will be made available to KDOR for retrieval within 24 hours. **KDOR will not receive any state data associated with a rejected federal return.**

The IRS acknowledges only that it received the state data for both Fed/State and state only transmissions. The IRS acknowledgment is not an indication that the KDOR has “accepted” your state return. You must receive the Kentucky acknowledgment to be assured your state return has been accepted. Contact KDOR if you receive a federal acknowledgment but no state acknowledgment within three days from the time acknowledgment is received from the IRS.

### Acknowledgment of the Kentucky Return

The Kentucky acknowledgment system is designed to inform transmitters that the Kentucky return has been received and either accepted or rejected by the KDOR. (Rejection codes are included in Appendix A.) The acknowledgement system will provide codes of “A” for accepted, “R” for rejected and “D” for a duplicate return. The acknowledgement code of “A” means that the return has been accepted for processing by the Department, not necessarily that the return is error free. Upon receipt of the Kentucky return from the IRS, KDOR will generate an acknowledgment record and post the record for retrieval by transmitters.

Kentucky’s acknowledgement system is now being handled through the IRS. We will be using the same format that is described by the IRS for all acknowledgements.

Transmitters are encouraged to retrieve their acknowledgment records regularly. Transmitters should notify their EROs of the return’s acceptance within two working days after obtaining the acknowledgment. EROs are instructed to wait until they receive the acknowledgment record before the corresponding Form 8453-K is held for the retention period. (see Section 8).

NOTE: All transmitters will be allowed to perform state testing to ensure they can access and retrieve the state acknowledgment record.



## **Non-receipt of Kentucky Acknowledgment Record**

If any of the following error conditions occur, please follow the resolution process indicated below.

1. Kentucky acknowledgment records are received for some, but not all returns filed on a given date.
2. IRS acknowledgment records were received more than four working days ago and no Kentucky acknowledgment records have been received.
3. A transmission day is skipped (i.e., received acknowledgment records for a Monday and a Wednesday but none for a Tuesday transmission).

In all instances, be sure you have received an IRS acknowledgment record before you contact the Department of Revenue.

## **Resolution Process**

To check the status of a Kentucky acknowledgment record, EROs must contact KDOR's Electronic Filing Helpdesk at (502) 564-5370. Have the primary Social Security number and date of transmission available when making the call.

In some instances, you may be required to file a paper return to correct problems, if the return is not eligible for state-only filing. Paper returns to replace rejected electronic returns should be sent to:

Kentucky Department of Revenue  
Electronic Filing  
P.O. Box 1231, Station 29  
Frankfort, KY 40602-1231

The paper return should include a printout of the return (including a copy of the federal return and all supporting schedules) and copies of all Forms W-2, W-2G and 1099-R. If the paper replacement is not sent to this address, it cannot be guaranteed priority processing.

## **Changes to Electronic Returns**

After electronic returns are transmitted, they cannot be recalled or intercepted in process. If the electronic filer or taxpayer wishes to change any entries after a return has been accepted, an amended return (Form 740-X) must be filed through the normal paper filing process. No action should be taken to change the computation between the date transmitted and the date the KDOR acknowledges the return.

## Section 8

### Form 8453-K

#### Kentucky Individual Income Tax Declaration for Electronic Filing

Form 8453-K is the signature portion of the return. It must be completed and signed, if required, by all appropriate parties before the return is transmitted electronically.

Form 8453-K:

1. Authenticates the return;
2. Authorizes the ERO to file the return electronically on behalf of the taxpayer; and
3. Authorizes KDOR to inform the ERO whether a taxpayer's return has been accepted.

Returns requiring forms or schedules excluded in Section 6 must be filed in paper format. Electronic filers must not use Form 8453-K to submit forms or schedules which are excluded (see Section 6) from electronic filing.

Form 8453-K authorizes the KDOR to discuss tax return information with the ERO.

Use only the official Form 8453-K or an approved substitute form that duplicates the official form in format, language, content and size. Photocopies are acceptable.

The following is the sequence of events in the handling of Form 8453-K:

1. An ERO prepares the return and computes the taxes based on the information the taxpayer provides or accepts an already prepared tax return for the purpose of transmitting it electronically.
2. After the return has been prepared and before it is transmitted, the taxpayer must verify the information on the return and sign Form 8453-K. The signature of both taxpayers is required on returns filed "Married, filing joint return" or "Married, filing separately on a combined return."
3. A copy of the prepared return must be provided to the taxpayer.

Form 8453-K is part of the electronic tax return for the purposes of taxpayer verification and signature. See Section 6 for details on when to use the 8453-K. A blank Form 8453-K is the same as a blank tax return. Practitioners are prohibited

from allowing taxpayers to sign a blank tax return. However, it is permissible to have the taxpayer review the completed tax return on the display terminal. The taxpayer should also review the completed Form 8453-K before signing it.

The DCN assigned to the taxpayer's federal return will also be used for the Kentucky return. This DCN should be entered on Form 8453-K. If the electronic return is rejected by the IRS and a new DCN is assigned, you must use the DCN accepted by the IRS on the Kentucky electronic return and Form 8453-K.

Following the new guidelines for Form 8453-K (see Section 6), the ERO is required to retain this form for a period of three years.

If requested by the KDOR, the ERO must provide the department with a copy of the Form 8453-K or a new Form 8453-K within five days of the department's request for the form.

## Section 9

### Refund Options for Electronic Filers

Taxpayers may elect to have their overpayments applied to their next tax year's estimated tax, mailed to them in the form of a refund check, or deposited directly into a bank account. If direct deposit is elected, the same verification procedures outlined in IRS Publication 1345 must be followed.

Taxpayers' Kentucky refunds do not have to be direct deposited in the same bank account as their federal refunds.

KDOR's acknowledgment of the electronic return will not indicate whether the refund will be direct deposited.

Some items which could cause KDOR to deny a direct deposit request:

***Please verify  
all banking  
information  
before  
transmitting  
returns.***

- All/part of the overpayment is applied to the taxpayer's delinquent Kentucky taxes.
- All/part of the overpayment is applied to the taxpayer's debts to other state agencies and/or the IRS.
- The amount of the refund is adjusted by the tax processing system.
- An invalid account number or bank routing number is submitted.

The taxpayer may determine the reason for the conversion by calling the Department of Revenue's Taxpayer Assistance Section at (502) 564-4581 between 8:00 a.m. and 5:00 p.m., Monday through Friday, Eastern Standard Time.

## Section 10

### Refund Delays

It is anticipated that refunds from Kentucky returns filed in the Federal/State Electronic Filing Program will be issued within two weeks. The average amount of time to issue a refund during the 2006 processing year was 7 to 10 days. However, the following conditions may delay refunds and/or change refund amounts on electronically filed returns:

1. The taxpayer owes delinquent Kentucky taxes.
2. The taxpayer owes a debt to another state agency or to the IRS.
3. The estimated tax payments claimed on the return do not match the estimated tax payments recorded on KDOR's estimated tax file.
4. The refund amount is adjusted when the electronic return is processed.
5. Bad addresses. Common problems are addresses containing a rural route. While the KDOR recognizes that some rural routes still exist in Kentucky, most rural routes have been eliminated and assigned a street name with a house number. Preparers should verify that the rural route is still a valid address before utilizing this address on the taxpayer's return. Another common problem is an address that contains both a post office box number and a street address. **Please enter the street name and house number on the first address line and enter the post office box number on the second address line.**

***Important  
address  
information***

If individuals need to contact the Department of Revenue regarding their Kentucky refund, they should be prepared to give their Social Security number and whole dollar amount of the refund. These taxpayers should contact KDOR's ARTIS line (502) 564-1600.

# Section 11

## Payment of Balance Due Amounts

The taxpayer is responsible for paying the amount due the KDOR by April 16, 2007 to avoid penalties and interest. Details of each payment option are listed below.

1. Kentucky will again be accepting direct debit payments on tax due returns. The payment **must** be the amount due as indicated on the return. A date up to April 16, 2007 can be elected for the payment to be debited from the specified account. After April 16, the payment will be debited when the return has completed processing. The direct debit account information can be found on the Form 8453-K.

Note: Please allow up to two weeks for your debit payment to be withdrawn from your account. Payments with a withdrawal date of April 16, 2007, will be considered timely when processed.

2. The taxpayer may submit payment by mailing Form 740-V with their payment. Form 740-V is a payment coupon made available to EROs. If the ERO's software package has the capability of printing a document in the same format as the Form 740-V, this can also be used. **A paper copy of the electronic return should not be submitted with the 740-V. This delays processing of the electronic voucher and payment.**

Payments made with Form 740-V should be mailed to:

Kentucky Department of Revenue  
Frankfort, KY 40619-0008

3. Taxpayers can also pay their 2006 Kentucky individual income tax by MasterCard or Visa credit card through April 16, 2007. Access the Department of Revenue's home page at (<http://revenue.ky.gov>) to make credit card payments over the Internet. Click on the *KY E-Tax* logo then click on *E-Payments*. If the taxpayer does not have access to the Internet, you may call the KDOR at (502) 564-4581.

A 'tax due notice' will not be sent to the taxpayer prior to the April 16 filing deadline. The taxpayer should submit payment using one of the payment options listed above prior to April 16, 2007 to avoid penalties and interest.

## Section 12

### What Electronic Filers Must Provide to the Taxpayer

The ERO must furnish the taxpayer with documentation of all completed Kentucky forms and schedules filed for the taxpayer. This material should be provided to taxpayers at the time they sign Form 8453-K or use one of the electronic pin signature methods.

The ERO must also provide the taxpayer with a copy of the following material filed with KDOR:

1. The completed Form 8453-K, Kentucky Individual Income Tax Declaration for Electronic Filing, if required.
2. Other documents containing required signatures.
3. Any other documents which are not Kentucky forms or schedules.

In addition, the ERO should advise the taxpayer to retain copies of the following material:

1. Form W-2, W-2G or 1099-R.
2. Any other documents, not required by KDOR, which the taxpayer voluntarily includes as supporting material.
3. The signed Form 8453-K, if required.

Immediately upon learning that a return was not accepted by KDOR, the ERO must advise the taxpayer that their return was not accepted, **(if the return is not eligible for state-only filing)** and that a paper return must be filed. The taxpayer should allow up to twelve weeks for any Kentucky refund to be issued on a paper return.

If an electronically filed return was acknowledged as accepted by the KDOR, the ERO should advise the taxpayer to wait three weeks from the acknowledgment date before making an inquiry about his/her refund. The taxpayer may call KDOR's ARTIS line (502) 564-1600 for information about his or her refund. They should be prepared to give their Social Security number and whole dollar amount of the expected refund.

**It is the responsibility of the electronic filer to follow all guidelines in IRS Publication 1345.**

## **Section 13**

### **Penalties**

#### **Penalties for Disclosure or Use of Information**

Guidelines outlined in IRS Revenue Procedure 94-63 and 94-63A should be followed as well as Kentucky Revised Statute 131.190.

#### **Penalties for Late Filing, Late Payment and Fraudulent Returns**

This provision provides due notice that all additions to tax, penalties, and criminal provisions applicable to paper filers are also applicable to electronic filers. Specifically, penalties and interest for late filing and late payment will be assessed.

Penalties will be assessed against any person filing an incomplete or misleading return. Additionally, any person who willfully subscribes or presents a fraudulent return will be subject to prosecution and penalties. Other criminal provisions will be applicable to the extent that a person attempts to commit forgery and falsify signatures on any electronic filing form, check or direct deposit form.



## **Section 14**

### **Taxpayer Assistance and Refund Inquiry**

Taxpayers may confirm acknowledgment of their Kentucky returns with their practitioner or transmitter and are advised to wait three weeks from the transmission date before calling or writing KDOR to inquire about their refund status.

If a taxpayer and/or spouse owes money to KDOR, other state agency, IRS, etc., the amount may be deducted from the refund. This debt will delay processing of the taxpayer's refund because all claims against the refund must be resolved before a refund check can be processed. Electronically filed returns experiencing errors in KDOR income tax system will be given first priority for resolution.

#### **For Taxpayers**

KDOR has an Automated Refund and Tax Information System, ARTIS, that a taxpayer can call to get the status of their refund. The taxpayer must provide the primary Social Security number listed first on the tax return and the amount of the refund expressed in whole dollars.

ARTIS Line: 1-502-564-1600

Taxpayers needing assistance to resolve any adjustments on returns or problems after processing should contact the Taxpayer Assistance Section at (502) 564-4581.

#### **For Transmitters, Preparers and EROs**

The KDOR will operate a helpdesk for electronic transmitters/preparers who are experiencing problems. The operating hours will be Monday through Friday, 8:30 a.m. to 4:30 p.m., except for holidays. The helpdesk number, (502) 564-5370, is to be used by electronic transmitter/preparers only.

# APPENDIX A

## Rejection Codes and Explanations for Tax Year 2006

### Form 740 Errors

- 0001 Kentucky return must begin with Federal Adjusted Gross Income
- 0002 Invalid Software developer code.
- 0003 Invalid EFIN.
- 0004 Duplicate Return. Electronic Return already received.
- 0005 Error in Federal AGI on married filing separate return.
- 0006 Federal Return required for State Only returns.
- 0007 Nonresidents and part-year residents are not eligible for electronic filing.
- 0008 Unformatted header records incomplete. Software format issue.
- 0009 Unformatted record byte count incorrect.
- 0010 Invalid debit routing number.
- 0011 Invalid debit account number. Must be numeric only.
- 0012 Invalid indicator. Indicator should be "1" for Direct Deposit option.
- 0013 Invalid debit indicator. Indicator should be "2" for Direct Debit option.
- 0014 Invalid debit amount. Debit payment amount must equal amount due on return.
- 0015 Invalid debit date. Debit payment cannot be warehoused after April 15th.
- 0016 Invalid debit date. Invalid date format in file.
- 0017 Incomplete debit/deposit account type. (Checking / Savings account indicator blank)
- 0018 Primary social security number missing.
- 0019 Spouse social security number missing.
- 0020 Name / address fields incomplete.
- 0021 City / State / ZIP code fields incomplete.
- 0022 Filing status incomplete.
- 0023 Invalid Filing Status. Must equal 1, 2, 3 or 4.
- 0024 Taxpayer political party fund code invalid. Must equal 4, 5 or 6.
- 0025 Spouse political party fund code invalid. Must equal 1, 2 or 3 if filing status 2 or 3 is used.
- 0026 Additions on Form 740, line 6, does not match additions from Schedule M.
- 0027 Error in calculation on Form 740 Line 7
- 0028 Subtractions on Form 740, line 8, does not match subtractions from Schedule M.
- 0029 Error in computing KY AGI, Form 740, line 9.
- 0030 Error in standard deduction amount claimed.
- 0031 Itemized deductions claimed does not match the Spouse total on Schedule A.

- 0032 Itemized deductions claimed does not match the Taxpayer total on Schedule A.
- 0033 Error in computing taxable income.
- 0034 Line 13 amount claimed does not match value on Form 4972-K.
- 0035 Error in tax amount from tax table or computation.
- 0036 Total Business Incentive Credits does not match total from page 2, Section A, lines 13A or 13B.
- 0037 Total Personal Tax Credits claimed does not match total from Page 2, Section B, lines 4A or 4B.
- 0038 Error in computing subtotal tax after business incentive and personal credits, line 18.
- 0039 Error in computing Total Family Size
- 0040 Error in computing Family Size Tax Credit
- 0041 Education Tuition Tax Credit does not match total from Form 8863K.
- 0042 Error in computing Child and Dependent Care Credit.
- 0043 Error in computing Income Tax Liability, line 26.
- 0044 Error in computing Total Tax Liability, page 1, line 28 / page 2, line 29.
- 0045 Error in amount claimed as Kentucky Income Tax Withheld.
- 0046 Error in amount claimed as Kentucky Estimated Tax Payments.
- 0047 Error in amount claimed as Kentucky Refundable Corporate Entity Credit.
- 0048 Error in computing line 31, total refundable credits.
- 0049 Error in computing amount overpaid.
- 0050 Error in computing additional tax due.
- 0051 If additional tax due is greater than \$500, you are required to file Form 2210K.
- 0052 Error in computing amount you owe.
- 0053 Error in computing total Business Incentive Credits, Section A.
- 0054 Credit for Tax Paid to Other State not eligible for electronic filing without supporting documentation.
- 0055 Corporate Entity Credit not eligible for electronic filing without supporting documentation.
- 0056 BIC not eligible for electronic filing.
- 0057 Worksheet required when claiming tax paid to another state.
- 0058 Check boxes for personal credits must be checked if applicable.
- 0059 Error in totaling personal credits.
- 0060 Incomplete dependent information.  
Total dependents claimed on lines 3A and 3B, Section B, Personal Tax Credits does not equal total credits claimed on line 3.
- 0061
- 0062 Calculation error in Section B, Personal Tax Credits, lines 4A and/or 4B.

#### **SCHEDULE M Errors**

- 0063 Schedule M required but not submitted with return.
- 0064 Spouse total additions is mathematically incorrect.
- 0065 Taxpayer total additions is mathematically incorrect.

- 0066 Spouse total subtractions is mathematically incorrect.
- 0067 Taxpayer total subtractions is mathematically incorrect.
- 0068 Negative values are not allowed on Schedule M.
- 0069 Pension exclusion amount claimed cannot be verified. Does not match federal return data.
- 0070 Social security amount claimed as deduction cannot be verified. Does not match federal return data submitted.

#### **SCHEDULE A Errors**

- 0071 Schedule A required but not submitted with return.
- 0072 Percentage field format error.
- 0073 Error in computing KY AGI on Schedule A.
- 0074 Total contributions are limited to 50% of KY AGI.
- 0075 Filing status 2 requires page 2, Schedule A to be completed.
- 0076 Error in total itemized deduction calculation.

#### **SCHEDULE P Errors**

- 0077 Invalid date format in file.
- 0078 Schedule P required but not submitted with return.
- 0079 Invalid Percentage field format on Schedule P.
- 0080 Error in Schedule P flow to Schedule M.

#### **Form 2210K Errors**

- 0081 Part I calculation error on Form 2210K.
- 0082 Part I data incomplete on Form 2210K.
- 0083 Part II calculation error on Form 2210K.
- 0084 2210K required but not filed.

#### **Form 8863K Errors**

- 0085 8863K required but not filed.
- 0086 Error in calculating education credit.
- 0087 Incomplete data on 8863K.
- 0088 Only undergraduate studies at Kentucky institutions qualify for education credit.

#### **Form 4972K Errors**

- 0089 4972K required but not filed.
- 0090 Calculation error on Form 4972K.
- 0091 Incomplete data on Form 4972K.

#### **Credit for Tax Paid to Other State Worksheet**

- 0092 Tax Paid to Other State worksheet required but not filed.
- 0093 Incorrect computation on TPOS Worksheet.
- 0094 Reciprocal state. Other state income appears to be on wages.

**Credit for Refundable / Nonrefundable Corporate Entity Credit**

- 0095 Corporate Entity Credit worksheet required but not filed.
- 0096 Incorrect computation on Corporate Entity Worksheet.
- 0097 Total on Corp Entity Worksheet does not match credit claimed on return.

**SCHEDULE J Errors**

- 0098 Schedule J required but not filed.
- 0099 Calculation error on Schedule J.
- 0100 Incomplete data on Schedule J.

# APPENDIX B

## Sample Addresses

### Prefix Names:

EXAMPLE:	O'Brien	KEY:	Obrien
	Van Winkle		Vanwinkle
	Mc Donald		McDonald

### Street:

EXAMPLE:	120 South Fourth Street
KEY:	120 South Fourth Street

EXAMPLE:	23 East 4th Street
KEY:	23 East 4th Street

EXAMPLE:	2466 1/2 West Highway North
KEY:	2466 West Highway North

EXAMPLE:	C/O George Smith
KEY:	CO George Smith

EXAMPLE:	C/O Jones Mfg Co
KEY:	Jones Mfg Co

EXAMPLE:	C/O 123 Main St
KEY:	123 Main St

EXAMPLE:	12 North St Apt #4
KEY:	12 North St Apt 4

EXAMPLE:	34 Hopewell-Bohon Rd
KEY:	34 Hopewell Bohon Rd

EXAMPLE:	543 Lovelace-Florence Station Rd
KEY:	543 Lovelace Florence Stat Rd

# **APPENDIX C**

**Form 8453-K (2006)**

